

Endowment Fund Investment Board

Analyst: Houston

Historical Summary

OPERATING BUDGET	FY 2000 Actual	FY 2001 Actual	FY 2002 Approp	FY 2003 Request	FY 2003 Gov Rec
BY FUND CATEGORY					
Dedicated	0	546,800	604,500	594,300	587,600
Percent Change:			10.6%	(1.7%)	(2.8%)
BY OBJECT OF EXPENDITURE					
Personnel Costs	0	350,000	403,400	393,400	390,000
Operating Expenditures	0	188,700	192,100	196,400	193,100
Capital Outlay	0	8,100	9,000	4,500	4,500
Total:	0	546,800	604,500	594,300	587,600
Full-Time Positions (FTP)	0.00	5.50	5.50	5.00	5.00

Division Description

The State Legislature created the Endowment Fund Investment Board in 1969 (Idaho Code, §57-718), after the passage of a constitutional amendment in 1968. Through active management of the endowment funds (§57-721) and the State Insurance Fund (§72-912), the Endowment Fund Investment Board provides income to the funds' beneficiaries and growth of principal through realized gains. The board is also responsible for contracting the investment managers for the Judge's Retirement Fund (§1-2008).

Recent endowment reform moved the Endowment Fund Investment Board from the Executive Office of the Governor to the Board of Land Commissioners effective July 1, 2000. Therefore, the FY 1999 and FY 2000 actual expenditures are shown in the Executive Office of the Governor.

Endowment Reform: The 1998 legislature approved four pieces of legislation (HJM 9, HJR 6, HJR 8, and HB 643aa) that began the latest round of "Endowment Reform". 1) HJM 9 requested that Congress allow proceeds from the sale of public school endowment lands to be deposited into a land bank to be used to purchase other lands. Congress later approved the memorial. 2) HJR 6 proposed amendments to the state constitution to change the word "disposal" to "sale" and to allow a land bank. Voters approved the constitutional amendment but the Supreme Court later invalidated the amendment, ruling that the amendment contained two questions and was not put properly before the people. The land board resubmitted the constitutional amendment regarding the land bank as HJR 1 in 2000 and the electorate approved the amendment in November of 2000. 3) HJR 8 proposed amendments to the State Constitution to allow the permanent fund to be invested rather than loaned, to create an earnings reserve, and to allow for payment of administrative costs from the earnings reserve. Voters approved that constitutional amendment in November of 1998. 4) HB 643aa of 1998 set up the distribution mechanisms necessary for the permanent funds, the earnings reserve and the income funds. The bill moved the Endowment Fund Investment Board from the Governor's Office to the Land Board, set up a land bank, and changed the makeup of the Board. The makeup of the nine member Board changed to remove the Superintendent of Public Instruction and the Director of the Department of Finance and replaced them with two "public members from the citizenry at large who are knowledgeable and experienced in financial matters and the placement or management of investment assets" (§57-718). SB 1107 of 1999 changed the effective date of certain sections of HB 643aa to allow investment in equities effective February 15, 1999.

Furthermore, HB 690aa of 1998 established the Capitol Commission and the Capitol Endowment from the former Public Building Endowment. The legislation became effective on July 1, 1998 creating a potential conflict with HB643aa which became effective July 1, 2000. However, during the 2000 session, the legislature resolved that conflict by repealing the Public Building Endowment, Idaho Code, §67-5779 through §67-5781.

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Comparative Summary

Decision Unit	AGENCY REQUEST		GOVERNOR'S REC	
	General	Total	General	Total
FY 2002 Original Appropriation	0	604,500	0	604,500
Expenditure Adjustments	0	(15,100)	0	(15,100)
FY 2002 Estimated Expenditures	0	589,400	0	589,400
Removal of One-Time Expenditures	0	(9,000)	0	(9,000)
FY 2003 Base	0	580,400	0	580,400
Personnel Cost Rollups	0	1,700	0	1,700
Inflationary Adjustments	0	3,300	0	0
Replacement Items	0	4,500	0	4,500
Nonstandard Adjustments	0	1,000	0	1,000
Change in Employee Compensation	0	3,400	0	0
Fund Shifts	0	0	0	0
FY 2003 Program Maintenance	0	594,300	0	587,600
1. Continuous Appropriation	0	0	0	0
FY 2003 Total	0	594,300	0	587,600
Change from Original Appropriation	0	(10,200)	0	(16,900)
% Change from Original Appropriation		(1.7%)		(2.8%)
Change in FTP's		(0.50)		(0.50)

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
FY 2002 Original Appropriation	5.50	0	604,500	0	604,500

Expenditure Adjustments

Eliminate part-time accounting position originally approved in FY 2000 but never filled.

Agency Request	(0.50)	0	(15,100)	0	(15,100)
Governor's Recommendation	(0.50)	0	(15,100)	0	(15,100)

FY 2002 Estimated Expenditures					
Agency Request	5.00	0	589,400	0	589,400
Governor's Recommendation	5.00	0	589,400	0	589,400

Removal of One-Time Expenditures

Remove one-time funding provided for two of the agency's seven computers at \$1,500 each and \$6,000 for a computer projector.

Agency Request	0.00	0	(9,000)	0	(9,000)
Governor's Recommendation	0.00	0	(9,000)	0	(9,000)

FY 2003 Base					
Agency Request	5.00	0	580,400	0	580,400
Governor's Recommendation	5.00	0	580,400	0	580,400

Personnel Cost Rollups

Includes the employer portion of estimated changes in employee benefit costs.

Agency Request	0.00	0	1,700	0	1,700
Governor's Recommendation	0.00	0	1,700	0	1,700

Inflationary Adjustments

Includes a general inflationary increase of 1.7% in operating expenditures.

Agency Request	0.00	0	3,300	0	3,300
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Not recommended by the Governor.

Governor's Recommendation	0.00	0	0	0	0
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Replacement Items

Replace two computers for \$3,100 and two fireproof file cabinets for \$1,400. Computer equipment is on a three-year replacement cycle.

Agency Request	0.00	0	4,500	0	4,500
Governor's Recommendation	0.00	0	4,500	0	4,500

Nonstandard Adjustments

Includes a reduction of \$100 for Attorney General fees, an increase of \$1,500 for State Controller fees, and a reduction of \$400 for State Treasurer fees.

Agency Request	0.00	0	1,000	0	1,000
Governor's Recommendation	0.00	0	1,000	0	1,000

Change in Employee Compensation

Reflects the cost of a 1% salary increase for permanent positions.

Agency Request	0.00	0	3,400	0	3,400
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The Governor recommends state employee compensation increases to be made from salary savings.

Governor's Recommendation	0.00	0	0	0	0
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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
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Fund Shifts

The request includes a fund shift of \$13,500 from the State Insurance Fund to the Endowment Administrative Fund to reflect a reduction in the percentage of the State Insurance Fund portion of the portfolio from 28% in FY 2002 to 26% in FY 2003.

Agency Request	0.00	0	0	0	0
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Recommended by the Governor.

Governor's Recommendation	0.00	0	0	0	0
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FY 2003 Program Maintenance

Agency Request	5.00	0	594,300	0	594,300
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Governor's Recommendation	5.00	0	587,600	0	587,600
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1. Continuous Appropriation

The Endowment Fund Investment Board requests a continuous appropriation for consulting fees, bank custodial fees, and portfolio-related external costs. The variable costs associated with these services depend on the size of the portfolio and the turnover of investments. This uncertainty makes budgeting difficult. Legislative intent included in the appropriation bill allows the Legislature to re-evaluate the need for a continuous appropriation on an annual basis and to consider a fixed appropriation should the costs be found to be more predictable. Actual costs paid through the continuous appropriation for FY 2001 were \$1,327,421 (the first full-year after endowment reform) and are estimated at \$2.7 million for FY 2002 and \$3.3 million for FY 2003.

Language Requested: The Endowment Fund Investment Board is hereby granted continuous appropriation authority for consulting fees, bank custodial fees, and portfolio-related external costs for the period July 1, 2002, through June 30, 2003.

Agency Request	0.00	0	0	0	0
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Recommended by the Governor.

Governor's Recommendation	0.00	0	0	0	0
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FY 2003 Total

Agency Request	5.00	0	594,300	0	594,300
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Governor's Recommendation	5.00	0	587,600	0	587,600
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Agency Request

Change from Original App	(0.50)	0	(10,200)	0	(10,200)
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% Change from Original App	(9.1%)		(1.7%)		(1.7%)
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Governor's Recommendation

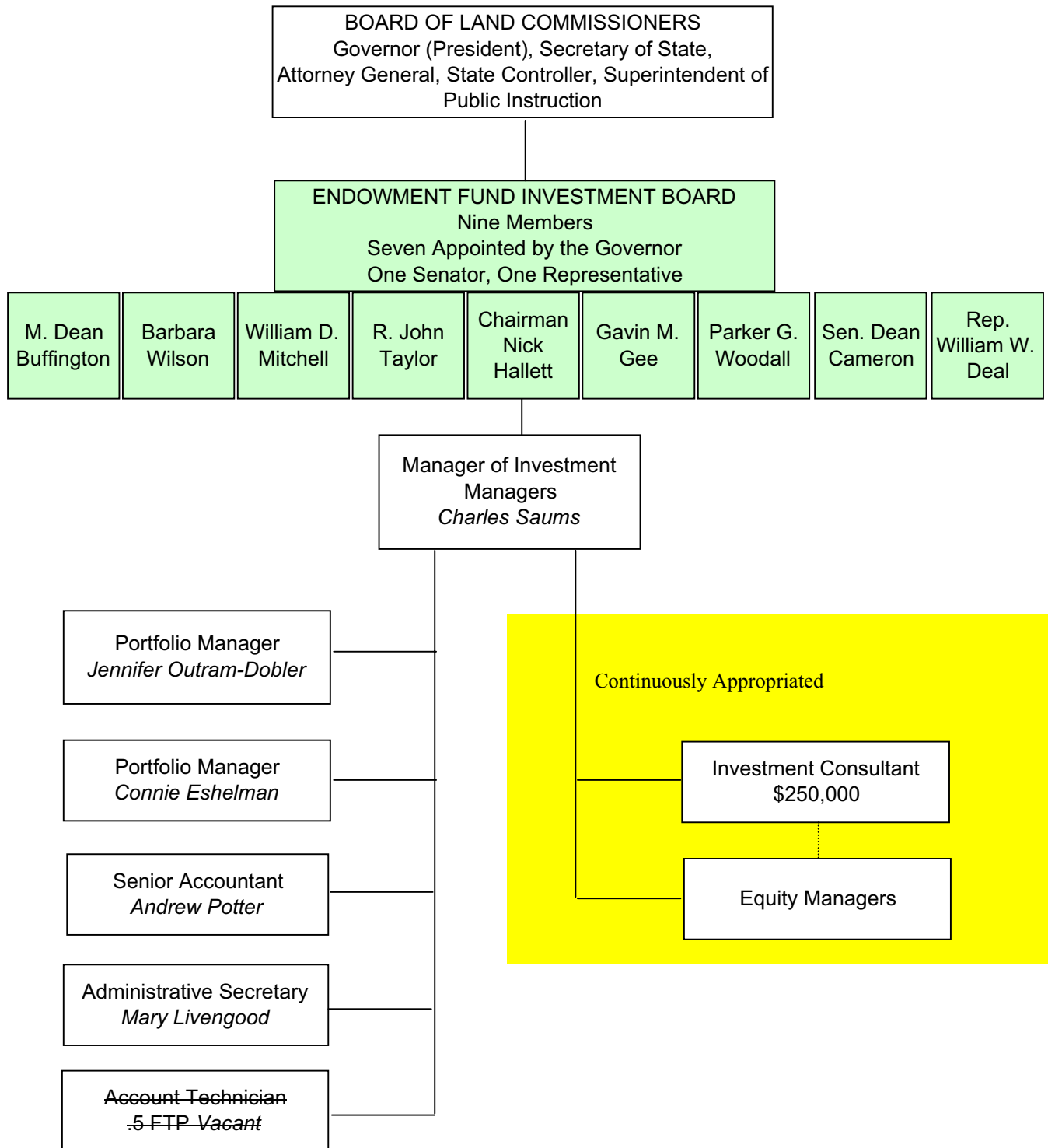
Change from Original App	(0.50)	0	(16,900)	0	(16,900)
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% Change from Original App	(9.1%)		(2.8%)		(2.8%)
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Endowment Fund Investment Board

Issues & Information

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State Insurance Fund - Performance

All numbers are in millions of dollars	FY 2000 Actual	FY 2001 Actual	FY 2002 Estimate	FY 2003 Estimate
1. State Insurance Fund (book values)	\$294.04	\$293.15	\$294.00	\$295.00
2. State Insurance Fund - income earned	\$17.20	\$17.10	\$16.50	\$17.00
3. Cost of management by Endowment Fund Investment Board (\$ millions)	\$0.19	\$0.15	\$0.16	\$0.14
4. Admin cost as a percentage of funds under management (a basis point is 1/100 of 1%)	0.06%	0.05%	0.05%	0.05%
5. State Insurance Fund - percentage return*	5.6%	5.8%	5.6%	5.8%

* Percentage return calculated as the distribution divided by the average of the current and previous fiscal year-end fund values.

Endowment Funds - Performance

1. Public School Endowment Fund Value	\$552.3	\$545.1	\$537.0	\$530.6
2. Pooled Endowment Funds Value	\$253.6	\$256.8	\$259.7	\$263.4
3. Total Public School and Pooled Endowments	<u>\$805.9</u>	<u>\$801.9</u>	<u>\$796.7</u>	<u>\$794.0</u>
4. Public School Endowment Distribution **	\$33.33	\$44.70	\$47.68	\$43.30
5. Pooled Endowment Distribution **	\$15.23	\$20.75	\$21.97	\$19.92
6. Cost of outside consultants, equity managers, and bank fees (\$ millions)	\$0.00	\$1.33	\$2.81	\$2.97
7. Cost of management by Endowment Fund Investment Board (\$ millions)	\$0.47	\$0.40	\$0.44	\$0.45
8. Admin cost as a percentage of funds under management (a basis point is 1/100 of 1%)	0.06%	0.22%	0.41%	0.43%
9. Beginning Value July 1		805.9	801.9	796.7
Net Contributions (Distributions)		20.5	(22.1)	(18.6)
Investment Gain (Loss)		(24.5)	16.9	15.9
Ending Value June 30		801.9	796.7	794.0
All Endowments - percentage return***	6.2%	-3.0%	2.1%	2.0%

** The FY 2000 distributions do not include Land Earnings. Land Board approved FY 2003 distributions on December 11, 2001.

*** FY 2000 percentage return calculated as the distribution divided by the average of the current and previous fiscal year-end fund values.

FY 2001 percentage return calculated as the Investment Gain (Loss) over beginning value.

FY 2002 and FY 2003 estimates from December 5, 2001 EFIB working papers and 8% phase-in spending policy.